

## Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ISO-00 NSC-04 NSCE-00 TRSE-00 FRB-03

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC 8693

C O N F I D E N T I A L PARIS 10302

LIMDIS GREENBACK////////////////

E.O. 11652: GDS

TAGS: EFIN, FR

SUBJECT: FRENCH EXTERNAL BORROWINGS AND MANAGEMENT OF  
FRENCH EXCHANGE MARKET

BROSSOLETTE, DIRECTOR OF TREASURY IN FRENCH FINANCE  
MINISTRY, HAS GIVEN US FOLLOWING OUTLINE OF PLANS OF  
FINANCE MINISTRY AND BANK OF FRANCE FOR DRAWING ON  
FRENCH EXTERNAL BORROWINGS SO AS TO COVER ANTICIPATED  
1974 FOREIGN EXCHANGE DEFICIT CREATED BY INCREASED  
COSTS OF OIL IMPORTS.

(A) BECAUSE OF DELAYS IN PAYMENTS FOR OIL IMPORTS,  
EFFECTS OF PRICE INCREASES DID NOT APPEAR ON EXCHANGE  
MARKET UNTIL CURRENT MONTH OF APRIL. UNTIL RECENTLY,  
MARKET EQUILIBRIUM HAS ALSO BEEN HELPED ON SUPPLY SIDE  
BY SOME INFLOW OF MONEY INDUCED BY TIGHT FRENCH MONE-  
TARY POLICY, PERHAPS AS MUCH AS \$200 MILLION.

(B) TREASURY SIGNED FIRM CONTRACTS WITH LENDING  
BANKS FOR ITS 1.5 BILLION EURO-DOLLAR LOAN ONLY ON  
APRIL 22. PLAN HAD BEEN NOT TO DRAW ON THAT LOAN  
UNTIL ABOUT MIDDLE OF JULY.

(C) INSTEAD, PRIORITY WOULD BE GIVEN TO UTILIZ-  
ING EXTERNAL BORROWINGS BY NATIONALIZED COMPANIES AND  
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OTHER FRENCH ENTITIES, WHICH TOTAL ABOUT \$1,450 MIL-

LION. TREASURY WORKED OUT SCHEDULE WITH THESE BORROWERS, WHEREBY STARTING IN APRIL, FUNDS WOULD BE DRAWN AND CONVERTED INTO FRANCS AT RATE OF ABOUT \$80 MILLION A WEEK. THIS WAS EXPECTED TO PROVIDE SUFFICIENT RESOURCES TO KEEP EXCHANGE MARKET IN ROUGH EQUILIBRIUM UNTIL MID-JULY. IF DURING THAT PERIOD FOREIGN EXCHANGE RECEIPTS PROVED TO BE GREATER THAN ANTICIPATED, BANK OF FRANCE COULD ALWAYS STEP IN AND TAKE SURPLUS FUNDS INTO ITS RESERVES.

(D) HOWEVER, THERE HAVE BEEN SOME DELAYS IN CONCLUDING LOAN CONTRACTS FOR BORROWERS OTHER THAN TREASURY. THIS IS PARTICULARLY THE CASE OF ELECTRICITE DE FRANCE. AS RESULT, IT NOW APPEARS THAT THERE WOULD BE A HOLE IN PROGRAMMED FOREIGN EXCHANGE RECEIPTS DURING FIRST HALF OF MAY. TREASURY IS, THEREFORE, PREPARING TO MAKE INITIAL DRAWING OF \$180 MILLION ON ITS OWN LOAN, WHICH IT WILL BE FEEDING INTO MARKET DURING THAT PERIOD.

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